

# WPG Resources Limited

## Peculiar Knob receives MARP approval

- WPG has announced the Mining and Rehabilitation Program (MARP) has been approved by the SA government. The MARP approval allows for construction to commence on site at Peculiar Knob and at the Port Pirie load out facility.
- WPG are fully funded to commence construction immediately with first production expected in May 2012 ramping up to 3.3mtpa and potentially 5.0mtpa from mid-2013 from total DSO reserves of 30mt, sufficient for a 10 year mine life at the initial 3.3mtpa production rate.

## Milestone event

- Approval of the MARP is a milestone event for the company. With the project being fully funded with US\$81m in cash, US\$70m in debt and US\$50m pre-sold ore sale agreement from Deutsche Bank, construction will start immediately.
- We anticipate over the next 3 to 6 months WPG will convert offtake contract MOU's into binding agreements for the sale of Peculiar Knob ore.

## Earnings

- We have recently updated our exchange rate assumptions to reflect the strong A\$ to the US\$ to \$1.07 (from \$0.97) in 2012FY, \$0.96 (from \$0.85) in 2013FY and \$0.86 (from \$0.78) in 2014FY.
- Our revised 2012FY exchange rate assumptions has reduced our projected earnings in 2012FY to 6.3c (from 8.9c), 2013FY to 29.2c (from 44.1c) and in 2014FY to 42.9c (from 55.8c).
- At current prices we place WPG on a PE multiple of 14.2 times (from 9.0x) in 2012FY, 3.0 times in 2013FY and 2.1 times in 2014FY.

## Recommendation

- The fully permitted and approved Peculiar Knob project is set for first production in May 2012. We continue to recommend a BUY with a **price target of \$1.39 per fully diluted share** (previously \$1.72ps) based on DCF methodology on a 3.3mtpa operation at Peculiar Knob.
- Our upside scenario values WPG at **\$2.00 per fully diluted share** (previously \$2.44ps) based on a 5.0mtpa production rate.

WPG.ASX

BUY

Friday 8 July 2011

Price		\$0.89
Valuation - 3.3mtpa		\$1.39
Valuation - 5.0mtpa		\$2.00
Valuation Method		DCF
GICS sector		Metals & Mining
Market Cap*	\$m	239
Shares on Issue*	m	268.5
EV	\$m	163
Previous rating		BUY
* Fully diluted for options		

Year Ended June 30		11e	12e	13e	14e
<b>3.3mtpa scenario</b>					
Production (Mt)		0.00	0.50	3.30	3.30
Sales revenue	\$m	0.0	63.9	395.1	454.7
EBITDA	\$m	-5.3	19.9	143.0	201.3
EBITDA margin	%		31.1	36.2	44.3
Reported NPAT	\$m	-2.7	15.8	74.1	115.1
Adjusted NPAT	\$m	-2.7	15.8	74.1	115.1

EPS adj	c	-1.1	6.3	29.2	42.9
EPS adj growth	%			366	47
DPS	c	0.0	0.0	0.0	0.0
Franking	%	0%	0%	0%	0%
PER	x	na	14.2	3.0	2.1
Dividend yield	%	na	na	na	na

EV/EBITDA	x	-31.0	8.2	1.1	0.8
ROA	%	na	23	426	-349
ROE	%	na	12	35	33
Debt / Debt + equity	%	na	34	25	17

### WPG (daily)



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## WPG Resources - 3.3mtpa base case

Share Price \$0.89

Valuation \$1.39

### Profit & Loss

Year ending June	2011e	2012e	2013e	2014e
Sales	0.0	63.9	395.1	454.7
Op. costs	0.0	34.5	226.2	225.6
Royalty	0.0	3.0	18.8	20.9
Corporate	5.3	6.0	6.0	6.0
Exploration Writeoff	0.0	0.5	1.0	1.0
<b>EBITDA</b>	<b>-5.3</b>	<b>19.9</b>	<b>143.0</b>	<b>201.3</b>
Dep/Amtz	0.0	4.0	36.3	42.5
<b>EBIT</b>	<b>-5.3</b>	<b>15.9</b>	<b>106.8</b>	<b>158.7</b>
Net Interest	2.6	0.0	-0.9	5.7
<b>Pre-Tax Profit</b>	<b>-2.7</b>	<b>15.9</b>	<b>105.9</b>	<b>164.4</b>
Tax Provision	0.0	0.1	31.8	49.3
<b>Net Profit/(Loss)</b>	<b>-2.7</b>	<b>15.8</b>	<b>74.1</b>	<b>115.1</b>
Abnormals	0.0	0.0	0.0	0.0
Reported Net Profit	-2.7	15.8	74.1	115.1

### Balance Sheet

Year ending June	2011e	2012e	2013e	2014e
Cash	76.0	67.1	193.8	377.8
Receivables	0.5	8.5	8.5	8.5
Fixed assets	41.3	139.3	105.0	64.5
Other assets	0.4	0.4	0.4	0.4
<b>Total Assets</b>	<b>118.2</b>	<b>215.2</b>	<b>307.7</b>	<b>451.2</b>
Creditors	1.2	9.2	9.2	9.2
Borrowings	0.0	70.0	70.0	70.0
Other liabilities	1.6	1.7	17.3	27.2
<b>Total Liabilities</b>	<b>2.8</b>	<b>80.9</b>	<b>96.5</b>	<b>106.4</b>
<b>Net Assets</b>	<b>115.4</b>	<b>134.3</b>	<b>211.2</b>	<b>344.8</b>
Share capital	125.3	128.4	131.2	149.7
Retained earnings	-14.0	1.8	75.9	191.0
<b>Shareholders Funds</b>	<b>115.4</b>	<b>134.3</b>	<b>211.2</b>	<b>344.8</b>

### Cashflow

Year ending June	2011e	2012e	2013e	2014e
Sales Revenue	0.0	63.9	395.1	454.7
Less Outflows	0.0	-34.5	-226.2	-225.6
Prod. costs in exc. sales	-5.3	-9.0	-24.8	-26.9
Net interest	2.6	0.0	-0.9	5.7
Income tax paid & other	0.0	0.0	-16.2	-39.4
<b>Operational Cash Flow</b>	<b>-2.7</b>	<b>20.4</b>	<b>127.0</b>	<b>168.5</b>
Exploration	-2.0	-2.0	-2.0	-2.0
Capex	-70.0	-100.5	-1.0	-1.0
Asset (Purchases)/Sales & other	50.0	0.0	0.0	0.0
<b>C/Flow from Investing</b>	<b>-22.0</b>	<b>-102.5</b>	<b>-3.0</b>	<b>-3.0</b>
Dividends paid	0.0	0.0	0.0	0.0
Debt (Repay)/Borrowings	0.0	70.0	0.0	0.0
Equity Raised	85.2	3.2	2.8	18.5
Other	0.0	0.0	0.0	0.0
<b>C/Flow from Financing</b>	<b>85.2</b>	<b>73.2</b>	<b>2.8</b>	<b>18.5</b>
Cash at Beginning	15.5	76.1	67.1	193.8
Net Increase/(Decrease)	60.5	-9.0	126.7	184.0
<b>Cash at end</b>	<b>76.1</b>	<b>67.1</b>	<b>193.8</b>	<b>377.8</b>

### Company Description

WPG is developing the Peculiar Knob DSO deposit in South Australia. The Company is targeting first production in JQ12 at a rate of 3.3mtpa. WPG also has substantial magnetite in the Hawks Nest project and have acquired a coal project near to its iron ore tenure.

### Market Measures

Year ending June		2011e	2012e	2013e	2014e
EPS adjusted	cps	-1.1	6.3	29.2	42.9
EPS growth	%			366.1	46.6
<b>PE multiple</b>	<b>x</b>	<b>na</b>	<b>14.2</b>	<b>3.0</b>	<b>2.1</b>
CFPS	cps	-1.9	7.3	49.3	62.0
CF multiple	x	na	12.2	1.8	1.4
DPS	cps	0.0	0.0	0.0	0.0
Dividend Yield	%	na	na	na	na
Enterprise value	\$m	144.5	223.4	96.7	-87.3

### Profitability & liquidity ratios

Year ending June		2011e	2012e	2013e	2014e
ROE	%	na	12	35	33
ROA	%	na	23	426	(349)
NPAT / Sales	%	na	25	19	25
EBITDA / sales	%	na	31	36	44
Gearing (D/[D+E])	%	na	34	25	17

### Valuation

Valuation	Equity	dr @ 10%		dr @ 5%	
		A\$m	A\$ps	A\$m	A\$ps
Peculiar Knob	100%	388.4	1.45	435.2	1.72
MRRT (10% of PK/Buzz NPV)		-38.8	-0.14	-43.5	-0.17
Hawks Nest Mt/Hmt, Penrhyn coal		60.0	0.22	60.0	0.24
Other		0.0	0.00	0.0	0.00
Cash		53.7	0.20	53.7	0.21
Total Borrowings		-79.2	-0.29	-79.2	-0.31
Corporate/Other		-12.0	-0.04	-13.2	-0.05
<b>Total Valuation</b>		<b>372.0</b>	<b>1.39</b>	<b>413.1</b>	<b>1.63</b>

### Production

Year ending June	2011e	2012e	2013e	2014e
Direct shipping ore (Mt)	0.00	0.50	3.30	3.30
Other	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
<b>Total Attrib. Prod. (mmboe)</b>	<b>0.00</b>	<b>0.50</b>	<b>3.30</b>	<b>3.30</b>
Op. Costs DSO (A\$/t)	0.0	75.1	74.2	74.7
Op. Costs Other (A\$/t)	0.0	0.0	0.0	0.0
<b>Total Op. Costs (A\$/t)</b>	<b>0.0</b>	<b>75.1</b>	<b>74.2</b>	<b>74.7</b>
Cash margin (A\$/t)	na	56.1	60.1	70.7

### Price Assumptions

Year ending June	2011e	2012e	2013e	2014e
Exchange Rate (A\$/US\$)	0.99	1.07	0.96	0.86
Benchmark FOB Fines (62% Usc/t)	194	216	200	194
Av. PK FOB fines to benchmark (A\$/t)	125	131	134	145

### Resources

	Company		Veritas estimate	
	Mt	% FeO	Mt	% FeO
Peculiar Knob	19.2	64.0	19.2	64.0
Buzzard/Tui	18.4	61.6	18.4	61.6
Kite	30.0	50.5	30.0	50.5
Magnetite Resources	569.0	35.0	569.0	35.0
<b>Total</b>	<b>636.6</b>	<b>37.4</b>	<b>636.6</b>	<b>37.4</b>

Reserves DSO - 29.6mt at 62.0% Fe at Peculiar Knob and Buzzard

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RATING

BUY – anticipated stock return is greater than 10%  
 SELL – anticipated stock return is less than -10%  
 HOLD – anticipated stock return is between -10% and +10%  
 SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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